

FY 04 APPROVED GENERAL FUND BUDGET HIGHLIGHTS

Traditionally, this section of the Budget In Brief features items of interest to the public, or "highlights," which were funded for the new fiscal year. Development of the FY 04 budget has been a unique process. The County Executive had to make some truly difficult choices, while faced with: shortfalls in income tax and investment revenues; unfunded mandates from both the Federal and State governments; soaring health care costs; the needs of the County school system; and having to address the County's pay structure.

The FY 04 General Fund Operating Budget actually decreases from FY 03 by \$3,627,922. This is the first time since FY 92, during a recession, that such a reduction has occurred. We are including a chronology of how the FY 04 budget was developed, how it was impacted by outside forces, and why the approved budget is so restrictive that there are very few "highlights."

CHRONOLOGY OF THE FY 04 GENERAL FUND BUDGET PROCESS

AUGUST 2002 THROUGH OCTOBER 2002

Each year's budget process starts by examining current year revenues and expenses, then projecting future trends for both.

FY 03 / FY 04 Revenue Outlook: There were three revenue sources that had us concerned: Income Taxes, Investments and Property Taxes.

Income Taxes

The County had averaged a 6.75% growth in Income Tax receipts each year. But despite an FY 01 rate increase, the FY 02 actual rate of growth dropped dramatically; so for FY 03 we had predicted only a 1% growth. Examining the Income Tax receipts we had received by the Fall of 2002, we realized that we would not take in even the conservative amount of Income Tax revenue we had projected for FY 03, but we would be about (0.7%) short.

An analysis of this decline determined that although the Federal Reserve Board had lowered interest rates a number of times:

- o the national economy kept slowing down
- o interest rates paid by banks had been lowered
- o stock markets declined
- o unemployment rates had risen

All of these factors led to a drop in personal income for Maryland residents, and in turn, the County's Income Tax revenues. Remaining conservative, the FY 04 budget estimated Income Tax receipts are \$119,577,373, an increase of only \$17,296 or 0.01% over FY 03's budgeted amount.

Investment Income

As individuals were realizing growth in their investments, Harford County's Investment Income had grown by 90% from \$3,044,883 in FY 98 to \$5,776,576 in FY 01.

Starting in FY 02, with the decline in interest rates, just as individual investors were being hit with losses, the County's Investment Income declined to \$2,810,949.

The FY 03 budget included a conservative projection of \$2,300,000 in Investment receipts. But while constructing the FY 04 budget, we determined that we would earn about \$1,915,000 or (\$385,000) less than anticipated for FY 03. With interest rates remaining low, the FY 04 budget includes only \$2,015,000 in Investment Income.

Property Taxes

Although Property Tax revenues averaged a 5.0% growth rate from FY 98 until FY 01, and though during that period the State had increased the assessed value of most Harford County properties, beginning in FY 01, the rate of growth was slowed by State tax law changes enacted to implement electric deregulation.

As of January 1, 2001, the State changed the assessed value of machinery or equipment used to generate electricity for sale, from 100% to 50%. Since FY 01, the impact on Harford County has been a (\$1.7 million) decrease in annual Personal Property Tax receipts from public utilities.

FY 04's Expense Outlook: In addition to normal price increases for goods and services, we also consider any new expense requirements, plus we analyze existing expenses that are expected to change significantly. For FY 04, we had three main concerns: unfunded mandates, health care costs, and the County's pay structure.

Unfunded Mandates

These were mainly in the areas of Education and Environmental Issues

o Education

- ◇ The Federal "*No Child Left Behind Act*" requires local Boards of Education to have achievement standards put in place and to administer student testing to make sure those standards are being met by 2008.
- ◇ The Maryland State Legislature established the Commission on Education Finance, Equity and Excellence in 1999 (also known as the Thornton Commission). This Commission made recommendations that resulted in the "*Bridge to Excellence in Public Schools Act of 2002*." This act mandates that each school system develop a comprehensive five year plan, describing how the Board of Education intends to make improvements in achievement for every student.

These standards must be implemented on the local level, but they come to the County with a high price tag.

FY 04's Expense Outlook cont'd:

Unfunded Mandates

o **Environmental Issues**

- ◇ Standards for safety equipment have been raised by the Occupational Health and Safety Agency.
- ◇ Regulations have been placed on capping landfills, and on funding closed landfill site maintenance.
- ◇ Under the National Pollutant Discharge Elimination System Permit, we are charged with monitoring numerous sites and meeting constantly changing standards for stormwater management.

Health Benefit Costs

With no change in the health benefit packages provided for our employees, the County faced a 30% or \$3.5 million increase in costs.

Pay & Classification Structure

FY 94 was the last time our Pay and Classification Structure was analyzed. Due to a lack of funds the recommendations from that study were not implemented until FY 97.

We were experiencing a great deal of staff turnover and an inability to fill certain vacant positions.

Various salaries required adjusting for us to be competitive with other local jurisdictions and businesses in attracting and retaining a highly qualified work force.

DECEMBER 2002 THROUGH FEBRUARY 2003

December Each December the Office of Budget and Management Research (BMR) provides the County Executive and each County department a base budget that BMR developed in light of the revenue and expense information available in the Fall. For FY 04, BMR made major reductions to all base budgets.

January Departments normally consider the base budget as fixed. During January while in Budget Hearings with the County Executive, departments can request to be considered for additional funding for items or projects not included in their operating base budgets should additional revenue become available. During the January, 2003 hearings such requests were not entertained.

February The County Charter requires that the County Executive submit his Proposed Budget to the County Council by April 1st each year. In order for the Budget Office to have sufficient time to produce all the necessary budget documents, the County Executive usually makes his final decisions at the end of February as to what will be included in his Proposed Budget for the next fiscal year.

No final funding decisions were made in February. The County Executive wanted to be sure he had sufficient information concerning the amount of revenues that would be available to fund his FY 04 Proposed Budget since:

- o February of 2003 brought more bad news. FY 03 Income Tax receipts were coming to the County at an even lower rate than the in the Fall's projected (0.07%) shortfall. They were now estimated to be (1.32%) under budget.
- o A resolution to the State's fiscal problems had yet to be worked out in Annapolis.

Upon taking office in January, newly elected Governor Robert Ehrlich's Administration determined that the State of Maryland's FY 03 current year deficit and their FY 04 projected shortfall, inherited from the prior State administration, were worse than expected. The new Administration had planned on being able to alleviate some of the problem with new legislation allowing slot machines to be installed in Maryland Race Tracks. This issue met with opposition in the State General Assembly.

The State is also required by The Bridge to Excellence Act to fund a \$1.3 billion increase in State aid to local school systems over six years. (Note: For Harford County's school system alone, this meant a \$1.8 million increase for FY 03 and a projected additional \$10.4 million for FY 04.)

The State has in the past, reduced funding or imposed expenses on Maryland local governments to help solve its fiscal problems. Two State actions now impacted Harford County:

- o The State announced it would keep part of the local governments' share of Highway User Revenues for both FY 03 and FY 04 and transfer them to the State General Fund. This meant a loss of almost (\$4 million) to Harford County.
- o The State will not fund their Homeowners' Tax Credit program for FY 04. To hold our citizens harmless, the County will fund this tax relief at a cost of \$371,773.

MARCH

We could only plan for the worst. With our April 1st Charter deadline looming, the County Executive chose the **MOST CONSERVATIVE** approach to constructing the FY 04 Proposed Budget

- o He initiated an immediate freeze on hiring and spending.
- o Each department was directed to examine their current year FY 03 budget and offer up any savings that could be reappropriated for FY 04. Each department director was required to submit a list of items totaling 2% from their already reduced FY 04 base budgets where further cuts could be made.
 - ◇ Our departments offered up \$2.1 million from current year budgets for carry over to FY 04, and another \$1.6 million from their FY 04 base budgets

MARCH 2003 CONT'D:

- o The County Executive had our Human Resources Director re-examine our health benefits packages.
 - ◇ We were able to negotiate with our health care provider to offer our employees a number of health plans. After surveying other local subdivisions, and discussions with employee unions, it was determined that our staff was willing to accept some of the burden of increased benefit costs. These actions resulted in the County's increase being lowered from \$3.5 million to \$1.3 million for FY 04.
- o Every vacant position was considered for possible abolishment.
 - ◇ As a result, there is no increase in the number of full-time County positions in the FY 04 budget.
- o We examined alternative funding methods.
 - ◇ We initiated legislation to utilize FY 04 Transportation Fund revenues to support General Fund services. Restrictions limit the use of these Transportation Funds to road and fleet maintenance, traffic safety, and transport activities.
For FY 04 we intend to fund the Board of Education's Transportation services with \$1 million of these restricted funds, and to use an additional \$1.1 million to secure ten new air conditioned school buses for the John Archer School and five maintenance vehicles for the school system.
- o Other cost saving initiatives included:
 - ◇ Our tuition reimbursement plan will be suspended for FY 04 and our in-house training programs will be severely curtailed.
 - ◇ Only absolutely needed equipment will be purchased in FY 04 and our normal fleet turnover postponed. For FY 04, only \$575,153 is allocated in the General Fund for equipment, the lowest level since FY 93.
 - ◇ A number of capital projects originally planned for FY 04 which were to be paid with Pay As You Go funding from the operating budget have been postponed or trimmed.

APRIL 1, 2003

The FY 04 General Fund Proposed Budget was sent to the County Council containing:

Board of Education An increase of \$1,321,341 over the FY 03 allocation. We will again surpass the State's Maintenance of Effort's required funding increase of \$967,182 with an FY 04 appropriation of \$147,397,439. By partially funding Education's Transportation services with \$1 million of County Transportation Funds, we free up \$1 million in County General Funds from the Transportation Services category that will be appropriated to Instructional Salaries. The balance of the increase, \$321,341 is also allocated to Instructional Salaries. The County Executive's budget includes \$50,000 for School Beautification Grants and \$45,000 is again included in the County's Human Resource budget for sign on bonuses for Teachers in specialized areas, such as math and science.

Libraries A total allocation of \$10,361,806, includes an additional \$630,565 for: the Libraries anticipated 27% increase in health benefit costs for FY 04 @ \$247,324; operating expenses at the new Abingdon Library @ \$300,000; funds included towards a small wage enhancement for Library staff @ \$75,000; and paying the Libraries' FY 04 insurance premium @ \$7,841.

Harford Community College County funding for Harford Community College increases by \$190,000 to a total of \$11,688,368. The additional funds are to help cover the College's anticipated 12% increase in health benefit costs.

Sheriff's Office Funding for the Sheriff's Office increases \$346,704 for a total of \$36,063,320. This increase supports our commitment to keep the Deputies' salaries competitive with nearby local jurisdictions. Eligible staff will receive a Step increase.

Emergency Operations An additional \$117,832 is appropriated to Emergency Services to create two Emergency Planning positions, previously funded by the Federal Chemical Stockpile Emergency Preparedness Program (CSEPP) which is expected to end in September, 2003 (two existing vacant positions were abolished in exchange).

County Employees The budget includes funds to implement the recommendations of the Singer Group's pay and classification study. In addition, any employee who is placed in the new plan where their salary for FY 04 is increased by less than \$550 will receive a one time payment during FY 04 to bring next year's earnings up to at least \$550 over this year's earnings.

MAY 27, 2003

After conducting public and departmental hearings, and after making a few technical amendments, the County Council approved the FY 04 Budgets which require **no new or increased taxes**. As this Budget in Brief is published, the State of Maryland is still trying to work out its fiscal problems. To remain conservative fiscal managers, Harford County has postponed implementing the new pay plan until October 1, 2003. Staff has been made aware that further postponements may be necessary. This Administration is determined to keep Harford County fiscally strong, and will make whatever budget adjustments may become necessary during these challenging times.